



**Director of
Central
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10 May 1984**

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**HONDURAS-
NICARAGUA:****Helicopter Shootdown**

The downing of a Honduran helicopter by Nicaragua on Tuesday may have resulted partially from pilot error, but more incidents are possible as Managua improves its air defenses.

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Press reports indicate that Tegucigalpa, while admitting that the helicopter had strayed off course, has withdrawn its Ambassador from Managua to protest the shootdown.

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Honduran Armed Forces Commander Lopez has told the US Embassy that the helicopter was on a routine flight from Tegucigalpa to Tiger Island but that the pilot was inexperienced. The US defense attache says that poor weather and Honduran negligence in maintaining navigation instruments may have been contributing factors.

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Comment: The Hondurans are unlikely to retaliate with any significant military action, although skirmishes along the border are probable. Tegucigalpa may use the shootdown for diplomatic and propaganda purposes during Contadora negotiations and to rebut criticism of its military cooperation with the US.

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Managua's continuing effort to improve air defenses reflects the Sandinistas' growing concern with their inability to track flights over their territory. The Sandinistas often have difficulty distinguishing their aircraft from those of others. Early this year Nicaraguan troops shot down one of their own transports.

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Managua probably has asked both Havana and Moscow for more advanced weapons. The Cubans and Soviets are likely to continue supporting some improvements to Nicaragua's air defenses, but they are unlikely to provide them with their more advanced weapon systems. Nevertheless, the Sandinistas probably will continue their efforts to set up a more effective radar tracking system and improve command and control.

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**EASTERN EUROPE- Reaction to Olympics Boycott
USSR:**

Moscow's decision not to participate in the Olympics apparently has surprised its East European allies, but all except Romania are likely to follow the Soviet lead.

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Only Bulgaria has announced thus far that it will not participate in the games. Other Warsaw Pact members except Romania reported the Soviet decision but have not yet announced their own intentions. East European sports chiefs will meet in Moscow today to discuss their course of action, according to Western press reports.

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The US Embassy in Budapest reports that the Soviet announcement was not expected by Hungarian officials, who as of last week apparently believed there was little chance of a boycott. The chairman of Yugoslavia's highest sports organization has firmly denounced the Soviet move. The president of the Bulgarian Olympic committee has denied reports from Eastern and Western diplomats that preparations are under way for "countergames" in Sofia.

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Comment: Moscow's action is probably unpopular in many East European countries, and Soviet pressure on its allies to join the boycott will add to strains within the Warsaw Pact. East Germany will be particularly displeased because of the strong emphasis it places on Olympic achievements.

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Romania is likely to delay any major announcements until President Ceausescu returns home this weekend, but it is likely to attend the games. Unlike the other East Europeans, Bucharest has not criticized US preparations for the Olympics.

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Holding countergames could help ease disgruntlement among Moscow's allies and could win support from some Third World countries. Various Warsaw Pact countries might help host the events.

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LIBYA:**Implications of Attack**

Dissident commandos who attacked Tripoli yesterday intended to kill Qadhafi, but their failure probably has strengthened his domestic position for the near term.

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In statements to the press, the Libyan National Salvation Front claimed responsibility for the attack, stating that it was intended to kill Qadhafi.

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Meanwhile, the US Embassy in Tunis reports that Libya seized three Tunisian border guards on Tuesday. So far, however, Tripoli has accused only the US, the UK, and Sudan of complicity.

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Comment: Qadhafi's domestic position is probably stronger following the attempt. Qadhafi may use the attack to rally domestic sentiment against Western "imperialism."

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The National Salvation Front's ability to mount attacks inside Libya probably has been severely damaged. In addition to the deaths of the commandos, valuable information on the Front's activities in Libya may have been compromised when the dissidents were interrogated.

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Tunis, while seeking the return of its captured border guards, will try to convince Qadhafi of its innocence in the raid. It will expect US support if relations with Tripoli degenerate.

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PANAMA:**Election Returns Trickle In**

Vote counting has resumed following violent clashes between government and opposition forces on Monday, but an official tally probably will not be available until later this week.

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Official results announced yesterday showed progovernment candidate Barletta ahead of opposition figure Arias by some 22,000 votes. Thirty-three of the country's 40 electoral circuits have reported thus far, and the US Embassy says that results from four of the circuits have been challenged. The Electoral Tribunal will have three days to adjudicate the disputes and announce a ruling.

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To speed up the process, the government on Monday lifted the requirement that the presidential vote count be delayed until the contests for 67 legislative seats—with some 600 candidates—are decided.

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Comment: More disturbances are possible as long as the final announcement of the results is delayed. Both sides canceled political rallies on Tuesday, apparently in an effort to avoid more clashes between their supporters. Ironically, the slow vote count is largely caused by the numerous safeguards the opposition demanded during debates on the massive Electoral Code promulgated last year.

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The military has been restrained in dealing with demonstrations, but it will act quickly, and possibly harshly, if the situation appears to be out of control. Noriega, moreover, probably will move swiftly against Arias if the military's longtime antagonist is elected and appears ready to challenge Noriega's authority.

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CHINA-UK:**Resumption of Hong Kong Talks**

Talks on Hong Kong's future resumed yesterday with China and the UK at an impasse over fundamental differences. [redacted]

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The UK has been trying unsuccessfully to obtain Chinese agreement on specific administrative arrangements for Hong Kong after China regains control in 1997. China refuses to be bound by a detailed accord on how it will manage the territory and prefers agreement on a general statement of principles. The two sides exchanged different draft agreements outlining these approaches last month. [redacted]

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Beijing also has attempted to legitimize a greater role for China in Hong Kong before 1997 by proposing the establishment of a joint liaison group after an agreement is signed to ensure a smooth transition. Foreign Secretary Howe deferred this proposal during his visit to Beijing last month, arguing that such a body would give the impression of a Sino-British condominium in Hong Kong and undermine British authority. [redacted]

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In the last round of talks in late April, the Chinese tried to speed up the timetable agreed to during the Howe visit, which called for a draft agreement in September, a debate in the Parliament in autumn, and signing by the end of the year. Other differences remain on the issues of citizenship, internal security, civil service, land leases, and civil aviation. [redacted]

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In Hong Kong, investor and public confidence has declined since Howe announced on 20 April that the UK would leave Hong Kong in 1997. The local stock market fell 15 percent in two weeks, and the US Consulate reports an increasing number of people are preparing to leave. [redacted]

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Comment: The persisting serious differences will make it difficult to reach agreement by the Chinese deadline of September. China—apparently confident in its ability to maintain Hong Kong's prosperity even without active British cooperation—appears to be trying to win more concessions using the deadline as a threat. With Parliament likely to debate the Hong Kong issue this fall, Prime Minister Thatcher may be reluctant to make further concessions. [redacted]

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LEBANON: Kidnapings Claimed by Islamic Jihad

An unidentified telephone caller has claimed that Islamic Jihad kidnaped the US clergyman in Beirut on Tuesday. He also stated that US diplomat Buckley and journalist Levin were being held as part of the campaign to force all Americans off Lebanese soil. In the same call, the Islamic Jihad spokesman said the new kidnaping was meant "to renew our acceptance of the challenge made by Reagan to fight terrorism." The mainline Shia Amal militia was warned "not to intervene in the subject, so that we do not harass any of its members." [redacted]

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Comment: The method of the new kidnaping—three or four armed men forcing the victim into a car—closely resembles that used in the previous kidnapings in Beirut. Islamic Jihad is the name used by the Iranian-sponsored terrorists who bombed the US Embassy and the Marine barracks in Beirut and the US Embassy in Kuwait. The Hezbollah—radical Lebanese Shias—are the probable kidnapers. The Americans could be used in bargaining for the release of terrorists condemned to death by Kuwait for the bombing of the US Embassy and other facilities. [redacted]

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USSR-US: Ustinov Says US Preparing for War

Defense Minister Ustinov's charges, in an article published in *Pravda* yesterday, that the US seeks military superiority over the USSR in order to abolish "socialism" is another reflection of the more militant posture Moscow has adopted toward Washington. Ustinov compared US intentions with the threat to the USSR during World War II. He claimed that recent "peacemaking" speeches by US leaders are meant to camouflage preparation for war, and he quoted General Secretary Chernenko that any attack on the USSR will meet "immediate retribution." [redacted]

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Comment: Ustinov's truculence contrasts with his tone in an article published in December that appeared to try to allay public concern about the threat of a conflict, as well as with his election speech in February. Ustinov's current militancy, recent speeches by Chernenko, and the announcement that the USSR will not participate in the Olympics all suggest that the Soviet leadership has adopted a tougher posture, even though this may increase alarm among the Soviet public. [redacted]

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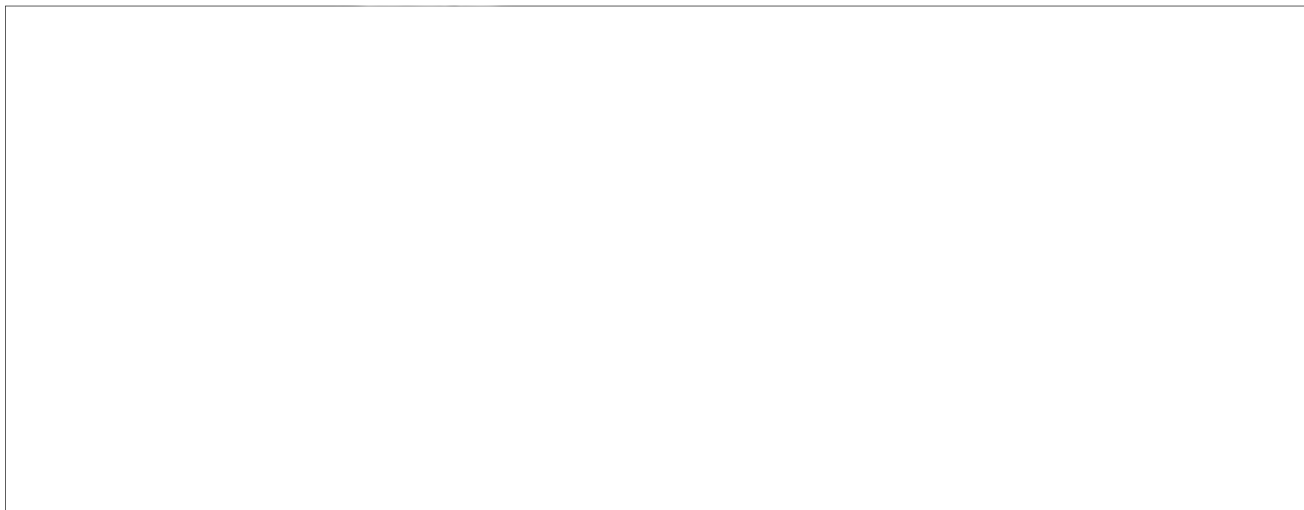
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In Brief



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Africa

- US Embassy confirms **Libya** has disbursed \$10 million interest-free loan to **Upper Volta** to support balance-of-payments deficit . . . likely to increase Tripoli's influence further . . . Voltan radical regime still dependent on **France** and Western donors.

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Western Europe

- Defense attache reports the Inflexible, **France's** sixth SSBN, has begun sea trials . . . deployment expected early 1985 with France's first MIRVed SLBM . . . will add 96 warheads to French strategic missile forces . . . will double present total.

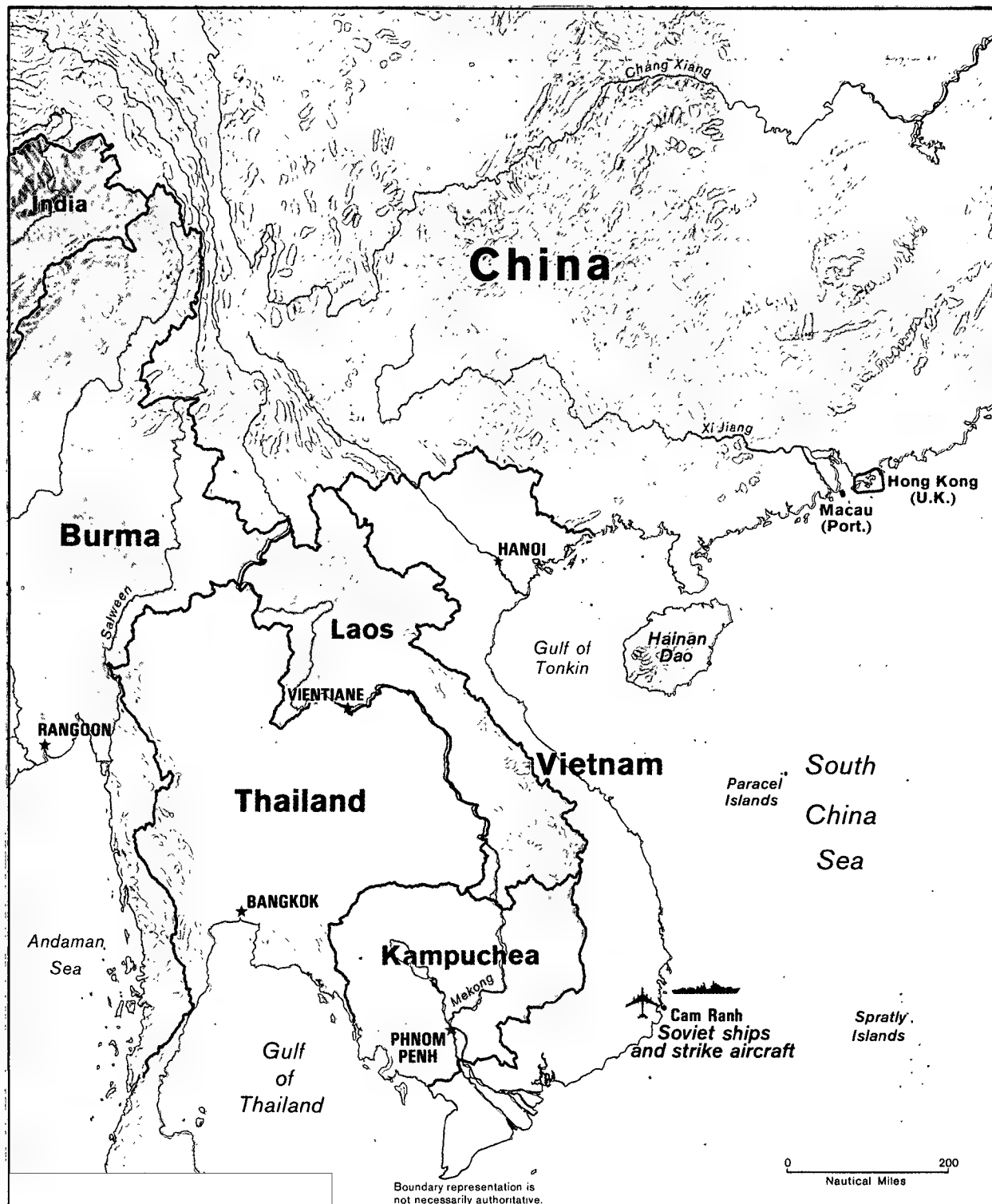
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Special Analysis

**USSR-CHINA-
VIETNAM:**

The Soviet Dilemma

Beijing's carefully calibrated show of force against Vietnam—which started while President Reagan was still in China—seems designed to demonstrate to the Soviets and their Vietnamese allies that China will not be intimidated by the steady Soviet military buildup in the area, to convey the impression that China is acting with US approval, and to embarrass the Soviets and complicate Moscow's relations with Hanoi.

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Chinese leaders have become increasingly disturbed by Moscow's unwillingness to ease Chinese concerns about Soviet "encirclement" after almost two years of talks. By increasing tensions now, Beijing clearly wants to signal Moscow that it will not simply acquiesce and that it is prepared to risk new strains in Sino-Soviet relations to protect its security interests.

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Beijing also may want to convey a similar message to Washington—that China can project its power in the region and that it is prepared to confront the Soviets or, in this case, a Soviet ally. In doing so, the Chinese want to underscore their importance in US strategic calculations.

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Thus far Beijing has portrayed its military objectives in fairly restrained terms, justifying its moves as responses to Vietnamese provocations. The Chinese could calculate, however, that stronger action, including a possible assault on the Vietnamese-held islands in the Spratlys, would increase the Soviets' dilemma.

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Soviet Calculations

The Soviet decision to postpone "indefinitely" First Deputy Premier Arkhipov's visits to Beijing, which was scheduled to begin today, indicates a desire to play it safe. The Soviets probably calculate that Arkhipov's presence in Beijing during a major Sino-Vietnamese flare-up would further complicate their relations with Hanoi, reduce their options for a response, and add to Vietnamese suspicions about Moscow's reliability. Postponing Arkhipov's talks in Beijing is the least that Moscow can do to demonstrate support for the Vietnamese.

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China's actions against Vietnam could force the USSR to make additional difficult decisions in the next few days and weeks. The Soviets will have to weigh the political risks of inaction against the risks of taking military steps. They presumably realize that an airlift of critical supplies, an increased Soviet naval presence in the South China Sea, military exercises on the Sino-Soviet border, and other low-risk actions will not deter the Chinese. Ultimately, Moscow's words and actions will be based on its evolving assessment of how far the Chinese intend to go, how well the Vietnamese resistance holds up, and how much force China is prepared to exert to overcome that resistance. [redacted]

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The Soviets have limited military capabilities to intervene with their own forces to assist the Vietnamese along their northern border. Moscow, however, probably is reasonably confident that the greatly strengthened Vietnamese forces in that area will enable Hanoi to withstand whatever the Chinese do along the border. The Soviets would, nonetheless, provide an airlift of critical spare parts and ammunition and, if necessary, a sealift to replace whatever the Chinese destroy. They also would increase their naval presence off the Vietnamese coast. [redacted]

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A Chinese Attack on the Spratlys

Beijing may believe that a strong show of force in the Spratly Islands—where Hanoi's ability to counter the Chinese on its own is limited—would create tougher problems for Moscow. The Chinese may have decided to force the Soviets' hand—calculating that Moscow will respond weakly to Vietnamese requests for assistance—to create new strains in Soviet-Vietnamese relations. [redacted]

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If the Chinese occupy the islands, Hanoi may ask the Soviets to blockade the Spratlys with surface ships or submarines to prevent any Chinese resupply efforts, to use its strike aircraft in Cam Ranh against Chinese ships or the occupied islands, or to provide support for a Vietnamese effort to retake the Spratlys. [redacted]

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The Vietnamese have some capability to attack Chinese forces in the Spratlys. Some of Hanoi's fighter aircraft are equipped with AS-7 missiles that could be used to support an attack on Chinese ships or positions there. [redacted]

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The Soviets probably would try to persuade the Vietnamese to yield to the sudden seizure of any of the disputed islands. They might argue that Chinese aggression would be likely to result in a shift in ASEAN attitudes toward the Vietnamese and that Hanoi should exploit the seizure diplomatically rather than attempt to retake some worthless reefs. [REDACTED]

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In the past, the Soviets have been anxious to avoid armed conflict with the Chinese. If naval fighting were to become prolonged and Vietnam were losing, however, the Soviet leadership might feel compelled to use its air and naval assets in the South China Sea on behalf of their Vietnamese allies. [REDACTED]

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The problem for the Soviets is that any harsher response risks jeopardizing their current dialogue with the Chinese and their leverage within the triangular relationship. Nonetheless, the Soviet reaction to Chinese aggression would be influenced by their likely calculation that they and their Vietnamese allies were facing a challenge—abetted by the US—designed to portray the USSR as an unreliable ally. Beijing's willingness to make the current show of force and to jeopardize the Arkhipov visit indicates that—when given a choice—Beijing assigns higher importance to security issues than to possible economic benefits Moscow might offer. [REDACTED]

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Special Analysis

MEXICO:

The Politics of Austerity

President de la Madrid, who will visit Washington beginning on Monday, has instituted harsh austerity measures without causing widespread unrest or instability. His administration's record thus far demonstrates the resilience of Mexico's political system and the capacity of its leaders to manage unaccustomed stress. Only isolated strikes and demonstrations have taken place, and the government remains firmly in control. Maintaining calm will become increasingly difficult, however, as austerity policies keep living standards below levels achieved during the late 1970s. Some disruptive incidents seem inevitable, but de la Madrid's political skill and the flexibility of the political system are likely to forestall serious disorders.

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Mexico had virtually no foreign exchange reserves and foreign debt exceeded \$88 billion when de la Madrid assumed the presidency in December 1982. Inflation and unemployment were rising to new heights, while imports and the rate of economic growth were falling.

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The Mexican people were angry and frustrated by departing President Lopez Portillo's economic mismanagement. Criticism by opposition groups of official waste, corruption, and inefficiency had further reduced public confidence in the ruling party to an alltime low.

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Holding the System Together

De la Madrid has depended on organized labor—the ruling party's largest and best organized power base—to sell the measures needed to restore financial order. The willingness of the unions to accept cuts in real wages has given him the time to launch a recovery program, build his reputation as a leader, and convince international bankers of his commitment to keeping Mexico living within its means.

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The President's skillful handling of the intricate give-and-take that characterizes Mexico's authoritarian political system also has helped maintain stability. De la Madrid's keen sense of the political consequences of his economic moves has prolonged his honeymoon with the voters and undercut potential causes for antigovernment sentiment. Judicious use of the government's security apparatus has put potential troublemakers on notice to keep protests from getting out of hand.

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To help restore public trust in the system and deflect the impact of austerity, de la Madrid has emphasized his commitment to a more honest and responsive government. A vigorous anticorruption campaign is the centerpiece of this effort. [REDACTED]

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Problems in Prospect

The difficulties for de la Madrid are not over. He will have to make politically risky moves if he is to get the changes in the economic structure that are necessary to prevent recurring financial crises. The financial crisis could change quickly into a political one if differences among the governing elite over economic strategy were to become severe. [REDACTED]

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Most Mexicans accept the need for austerity, but the sacrifices they have made already limit de la Madrid's choices. If key interest groups see inequities in public policy, they could demand that de la Madrid reverse major aspects of his program. Organized labor faces its second straight year of declining real wages. Alienation of this group would pose the greatest threat to stability and austerity. [REDACTED]

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Longstanding inequities in the present political system have been heightened by the economic decline of recent years, and de la Madrid will need to address these problems. Efforts to reform the ruling party so that it better reflects the growing importance of the middle class might increase divisive intraparty tensions. Disaffection by the middle class, however, probably would lead to greater support for rightist opposition parties and increase pressures to expand the role of opposition political groups. [REDACTED]

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The US Embassy reports that strategists are divided over what steps are needed to revitalize the party. Failure to follow up on the anticorruption campaign, especially within the ruling party, risks a backlash by the public. [REDACTED]

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Outlook

De la Madrid's skill and the Mexican political system will be sorely tested if the government moves ahead—as it appears determined to do—with the austerity program. The public will have to make more sacrifices. Unemployment will grow, living standards will drop further, and bankruptcies will multiply. [REDACTED]

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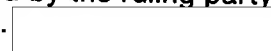
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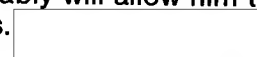
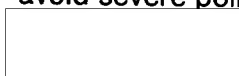
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The greatest potential for spontaneous trouble probably is in urban squatter areas. Opposition parties are not likely to sponsor violence, but their frustration with blatant electoral fraud by the ruling party could lead to antigovernment demonstrations.



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The ruling party's established lines of communications with the grassroots and the demonstrated flexibility of the governing elite should head off serious disorders. De la Madrid may use force selectively to maintain order, but the momentum generated by his strong early showing, the flexibility of Mexico's institutions, and the absence of alternatives to the ruling party probably will allow him to avoid severe political and economic disruptions.



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